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RUEHTV/AMEMBASSY TEL AVIV PRIORITY 2159
RUEAIIA/CIA WASHDC PRIORITY
RHEFDIA/DIA WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
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SIPDIS

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TAGS: EAGR ECON ENRG EPET PGOV SY

SUBJECT: SYRIAN REACTIONS TO INCREASE IN DIESEL PRICES

REF: A. DAMASCUS 307
1B. DAMASCUS 311
1C. DAMASCUS 240

Classified By: Charge d'Affaires Michael Corbin for reasons 1.4 (b,d)

SUMMARY

11. (C) The SARG's partial lifting of diesel subsidies and resulting price increases have produced a one-day strike by micro-bus drivers, a weeklong closure of private bakeries, breadlines at public bakeries, and a decision by many farmers to abandon their crops. In a continuing saga of government dysfunction, the SARG has not yet issued instructions for implementing the new diesel fuel ration cards that it hastily distributed prior to instituting the higher price. PM Otri and other officials have issued press statements to allay anxiety. While Syrians are not protesting in the streets, they are talking about little else other than their economic woes. End summary.

BREAD PRODUCTION BACK TO NORMAL

12. (SBU) Round-the-clock queues at public bakeries were reported in Damascus from May 5-7 after many privately-owned bakeries ceased operation in reaction to the SARG's 357-percent increase in the price of diesel (mazout) on May 3 (ref A). One locally employed staff member reported standing in line for over four hours on May 5 at a public bakery in the middle-class neighborhood of Muhabjerin, while an Embassy contact reported seeing a 30-person line for bread at 3:00 a.m. on May 6. Our staff reported hearing of similar lines throughout the country. After a mid-day meeting on May 7, the Ministry of Economy and Trade announced that private bakeries that produce subsidized bread would be allowed to purchase diesel at the former subsidized price of 7 SYP/liter if they would resume operations. By May 8, the crisis appeared to be on its way towards resolution as breadlines were decreasing.

13. (SBU) Private bakeries are estimated to produce 50 percent of all subsidized bread in Syria, which sells for 10 SYP (USD 0.22)/kg, and 75 percent of total bread supplies. As the

price of unsubsidized "tourist" bread at private bakeries increased from 25 SYP to 45 SYP/kg over the past six months, many middle-class Syrians have reverted to buying subsidized bread, even if it means standing in line. Since the April 15 increase in fixed prices for agricultural commodities, government bread is now less expensive than unmilled wheat and barley. To curb the use of subsidized bread as animal feed, the SARG has imposed a purchase limit of 4kg/day per consumer. Prior to implementing the diesel price increase, DPM for Economic Affairs Dardari and Finance Minister Hussein had publicly stressed that any diesel increase would not be reflected in the price of subsidized bread. On May 6, PM Otri told the pan-Arab daily Al Hayat that bread prices were a "red line" that "will not be raised."

REACTIONS FROM OUTSIDE DAMASCUS

¶ 4. (C) A farmer near the northeastern city of Qamishli told Embassy staff via telephone that he had decided to stop irrigating his wheat crop now, some two weeks before it was due to be harvested, due to the cost of running diesel-powered irrigation pumps. He said that the local diesel station's daily sales had plummeted from roughly 100,000 liters per day to just 1000 liters/day since May 3. The same source claimed that neighboring cotton farmers have also ceased irrigation and are attempting to sell their crops for grazing sheep, despite the SARG's recent threats to prevent such behavior (ref B). Agricultural sources in Hama reported cotton and sugarbeet farmers also grazing their crops rather than invest additional capital in irrigating, harvesting and transporting them. Local media covered the migration of hundreds of laborers, thought to be mostly Kurds, from Syria's eastern provinces to the coastal region near Tartous, where they will likely seek seasonal employment in greenhouses. Finally, local Embassy staff were shocked to see a featured news story on Syrian public television about rural Syrians resorting to donkeys and carriages for commuting because of fuel prices.

¶ 5. (C) An Econ contact in Lattakia reported that the coastal city had not experienced similar problems as Damascus in the days following May 3. Unlike in Damascus, microbus drivers in Lattakia did not stage an impromptu strike and no breadlines were observed. The contact also reported observing no interruption in normal operations at the city's industrial port.

RATION CARDS STILL NOT ACCEPTED

¶ 6. (C) Although the SARG attempted to distribute diesel ration cards to some 5.5 million households before implementing the price increase (ref C), the coupons are currently not being accepted by either filling stations or home delivery distributors. Similar to Syrian ration cards for rice and sugar, the coupons are designed to allow families to purchase 1000 liters of diesel at a price of 9 SYP/liter, and are prohibited from use for industrial purchases. Locals tell Emboffs that the government is keeping one office open in each county across the country to continue the distribution of diesel cards. On May 7, Director General of the Syrian Company for the Storage and Distribution of Petroleum Products (SADCOP) Abdallah Khattab told local media that instructions for using the ration cards would be issued on May 8, although contacts tell us that this did not occur.

PSYCHOLOGICAL REACTIONS

¶ 7. (C) Contacts who lived through the economic crises of the 1980s tell Post that the recent diesel price hike triggered a typical Syrian psychological reaction to hoard during times of instability. One upper middle-class Damascene recalled

that, upon hearing the news of Hafez al-Asad's death in 2000, the first thing he did was immediately go buy bread and sugar. A contact with a merchant friend in the commercial neighborhood near the Old City revealed that his friend's shop was visited this week by an officer from Political Security, who had inquired how the diesel price hike was affecting his business.

COMMENT

¶8. (C) Some contacts argue the SARG's decision to proceed with its plan to reduce diesel subsidies reflects its political confidence. Local economists were unanimous, however, that the SARG had little choice given its burgeoning budget deficit. Still, there are anecdotal reports of the mukhabarat quietly canvassing the country to gauge public reaction. The veil of secrecy around the plan's details, and evident lack of intra-governmental coordination, demonstrate the regime's caution. Although the breadlines are shrinking, consumers are still adjusting to the "new normal" of the Syrian economy. The most significant public reaction is likely still to come, when the farmers' decisions to abandon their crops may result in serious food shortages, and industrialists' decisions to stop or scale back production will have an obvious knock-on effect. Likewise, Syria's substantial textile industries may have difficulty coping with a shortage in domestic cotton and higher-priced fuel.

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